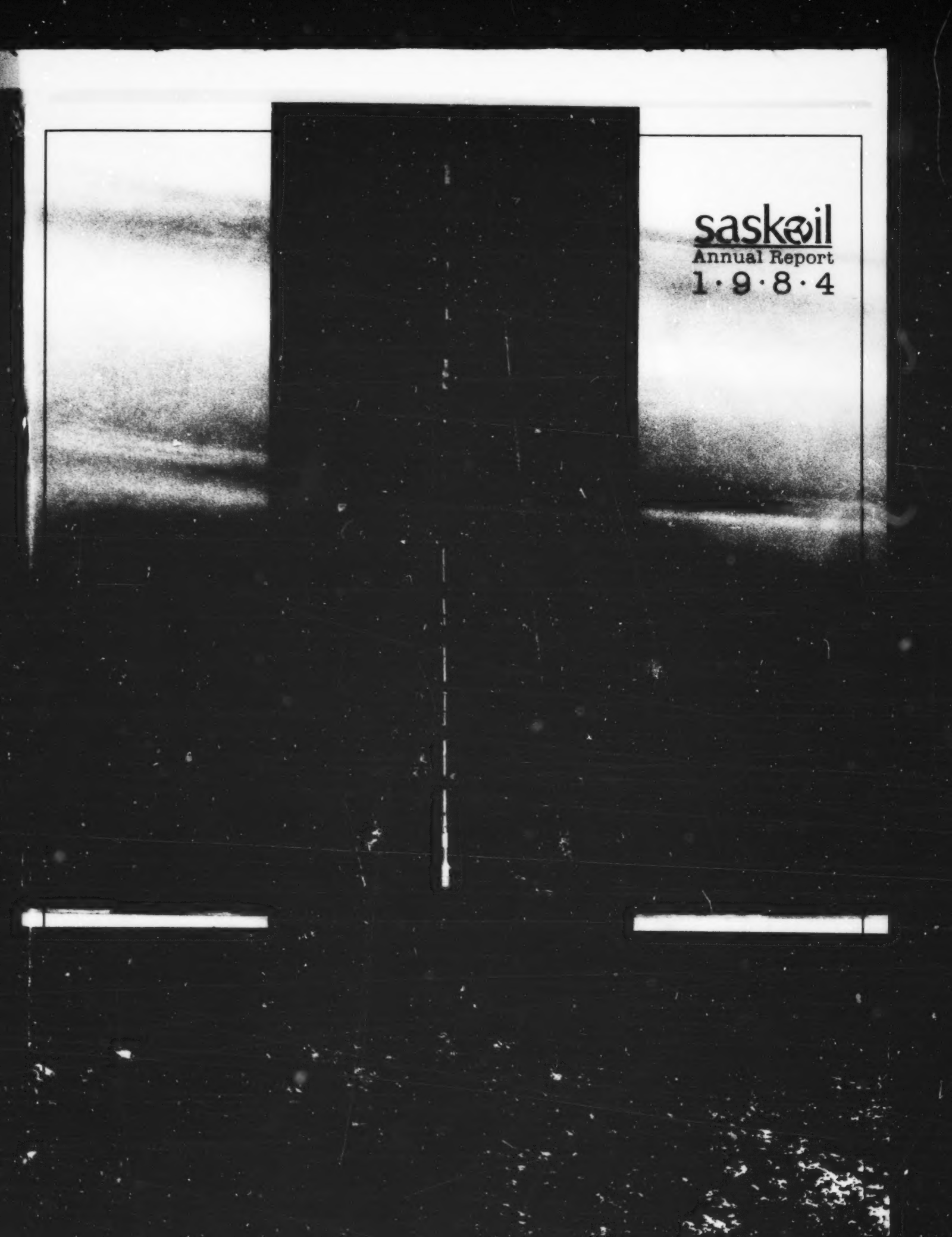
saskoil
Annual Report
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1984 Highlights

Operational

- During the year the Corporation participated in the drilling of 429 wells, surpassing 1983 drilling by 70 percent.
- Oil production rose to 819 thousand cubic metres for the year — a new record for Saskoil.
- In order to expand the Corporate resource base, Saskoil initiated its first operated enhanced oil recovery project at Onion Lake, Saskatchewan.
- Saskoil will increase gas sales to Saskatchewan Power Corporation through contracts and construction of gas gathering systems in the heavy oil areas of Saskatchewan.
- In spite of intense competition, Saskoil purchased 84 thousand gross hectares of mineral leases, exceeding 1983 purchases by 133 percent.

The Art and the Artist

Kevin Ghiglione, a recent A.C.A. graduate, is one of the new generation of visual communication "thinkers". "Every situation is an opportunity for creative and innovative visual problem solving." This statement underlies Ghiglione's philosophy and approach when responding to a specific communications need.

The works in this publication are designed to depict the various components of Saskoil. Composition, color and shape are used to convey idea and feeling; selective literal imagery focuses on information and meaning.

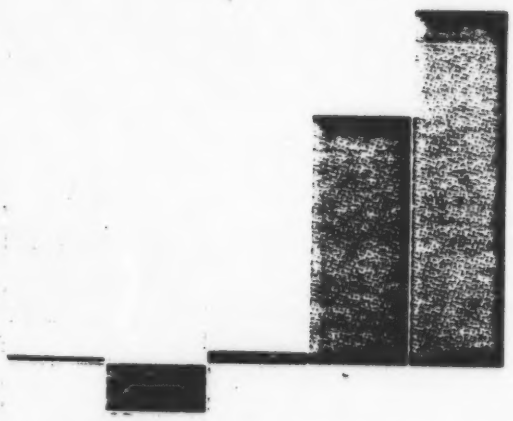
The vertical and horizontal design constants are an expression of achievement and upward mobility in concert with the stability of the Saskatchewan horizon. Early century patent drawings symbolize the oil industry; their designed interpretation suggests planning and building for the future.

We are proud to include the works of this talented Saskatchewan artist in our Annual Report.

Financial

	1984	1983
	(thousands of dollars)	
Revenues	$ 160,935	$ 136,047
Earnings	$ 44,033	$ 30,929
Funds provided from operations	$ 63,241	$ 43,936
Capital expenditures	$ 44,217	$ 30,080
Dividend	$ 6,605	$ 30,000
Working capital, end of year	$ 14,834	$ 8,441
Total assets	$ 273,889	$ 214,883
Long term debt	$ 15,000	$ 25,000
Return on capital employed	21.8%	20.0%

Earnings



For more than a decade, Saskoil has been active in the petroleum industry. Solely an upstream resources company, the Corporation is involved in exploration, development, production and transportation of crude oil and natural gas. Operations are conducted in all three prairie provinces with an emphasis on Saskatchewan. In terms of oil production, Saskoil ranks with the top three Saskatchewan oil companies and among the top 20 in Canada.

Saskoil is a 100 percent Saskatchewan-owned crown corporation. Corporate philosophy dictates competition without special privilege in the industry while providing a suitable return to the shareholder through the payment of dividends and growth in investment value.

Metric Conversion

In this report crude oil volumes are reported in cubic metres (m^3), natural gas volumes in millions of cubic metres (10^6m^3); distance in kilometres (km) and land holdings in hectares (ha).

The following are commonly used conversion factors.

To Convert From	To	Multiply by
cubic metres (m^3)	barrels (bbls)	6.293
million cubic metres (10^6m^3)	billion cubic feet (bcf)	0.035494
metres (m)	feet (ft)	3.281
kilometres (km)	miles (mi)	0.621
hectares (ha)	acres (ac)	2.471

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Regina, Saskatchewan
March 8, 1985

To His Honour,
The Honourable Frederick W. Johnson,
Lieutenant Governor of the Province
of Saskatchewan

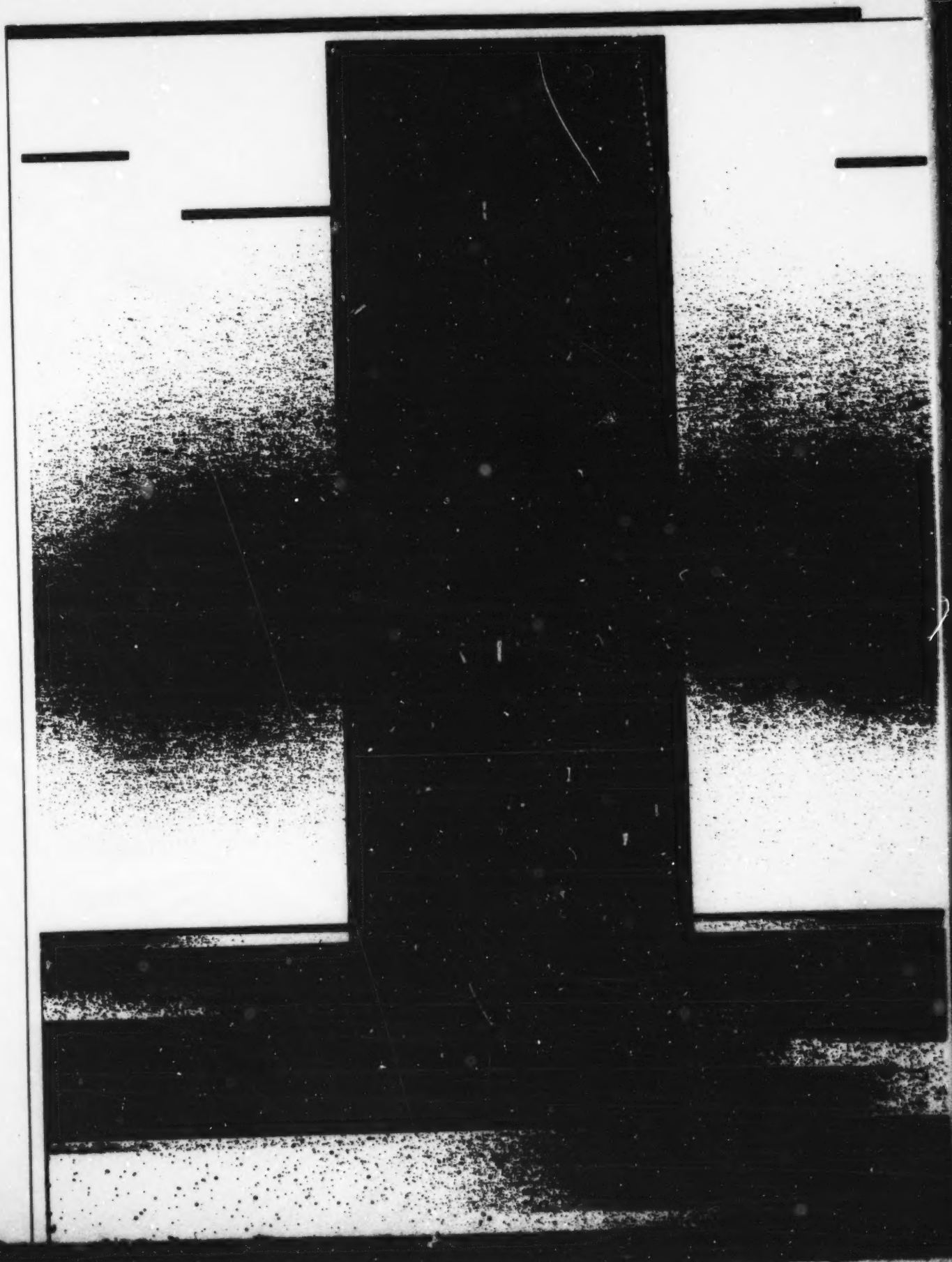
Dear Sir:

I have the honour to submit herewith the Annual Report of Saskatchewan Oil and Gas Corporation for the year ended December 31, 1984. It includes the financial statements for the period in the form approved by the Treasury Board and in accordance with the Saskatchewan Oil and Gas Corporation Act.

I have the honour to be, Sir,
Your obedient servant,

Paul Schoenhals

Paul Schoenhals,
Minister Responsible For,
Saskatchewan Oil and Gas Corporation



Operational and financial results for 1984 illustrate that Saskoil is a corporation with many strengths and a bright future. As the only major oil company with its head office in Saskatchewan, Saskoil is the third largest oil producer in the province and among the top 20 in Canada. Return on average capital employed of 21.8 percent makes Saskoil one of the most profitable corporations in the country.

Results of this magnitude don't just happen. It took the outstanding effort of all of our 259 employees in order to maximize the benefits of the strong markets we enjoyed in 1984. In addition, the regulatory and fiscal environment in Saskatchewan provided an incentive to risk investment dollars.

The Board of Directors has shown its confidence in the future by approving a 60 percent increase in Saskoil's capital budget for 1985. Capital will be directed toward achieving two key longer term objectives. The first is to ensure that oil and gas produced is replaced with new reserves. The second is to broaden Saskoil's sources of revenue by emphasizing light oil and Saskatchewan natural gas development. We will continue to restrict our expenditures to investments that will provide for future growth while retaining the Corporation's financial stability.

During 1984, Saskoil introduced a Participation Bond issue of $15 million which was quickly subscribed by the people of Saskatchewan. This suggests that the time is appropriate for public participation in the ownership of Saskoil. We welcome the scrutiny of the marketplace should our shareholder base broaden in 1985 and the years to come.

Our Vice-Chairman, Paul Schoenhals, joins me in thanking the Directors for their diligence during the year.

Herb C. Pinder Jr.
Chairman, Board of Directors

Nineteen eighty-four marked Seakol's 11th year of operation and another exceptional year of progress. We are pleased to report record earnings of $44 million on revenues of $160.9 million. In 11 years, Seakol has evolved into one of the most profitable companies in the Canadian oil and gas industry. We are proud of this achievement.

Our record production and sale of 819 thousand cubic metres of oil, combined with lower average royalty rates and higher prices, increased funds from operations to $63.3 million, 44 percent higher than the previous year. For Seakol's mix of production, the average crude oil price increased to $196 per cubic metre in 1984 from $183 per cubic metre in 1983. The average royalty rate dropped by 4.2 percent due to the provincial royalty holiday and increased production of oil that qualified for the lower, new oil royalties. Approximately 11 percent of our production was eligible for the royalty holiday with 61 percent receiving the NORP price.

Over 98 percent of 1984 production was from Saskatchewan sources. These crudes are typically more viscous and contain higher levels of sulphur than most Canadian crude oil. Since domestic refineries are generally designed to process the lighter, sweeter crudes, the primary market for our production continued to be in the northern tier refineries of the United States.

Increased upgrading capacity in these refineries, favourable refiner netbacks and the continuation of major American paving programs placed heavier crudes in high demand.

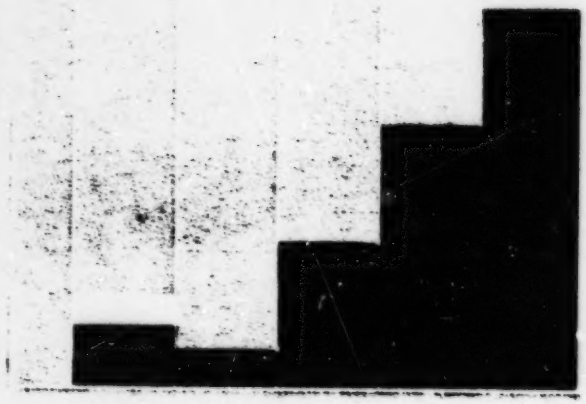
Corporate cashflow supported an aggressive capital program of $44.2 million. Of this spending, 43 percent was directed to development, 39 percent to exploration and 18 percent to production.

During the year we participated in the drilling of 429 development and exploratory wells which yielded 359 oil wells and 16 gas wells. Exploration drilling was directed at the further delineation of known pools and the search for new Saskatchewan light and medium oil plays. Development drilling was concentrated in the mature light and medium oil fields of southeast Saskatchewan, the site of several infill drilling projects, and in the Viking light oil pools of western Saskatchewan.

Oil reserve additions booked from 1984 drilling amounted to 349 thousand cubic metres, replacing 43 percent of the year's production. We also expect substantial reserve additions from 1984 infill drilling when well production history verifies that incremental volumes are being recovered from the pools. At year end, proven producing oil reserves totalled 7.3 million cubic metres.

Selective land purchases strengthened our corporate land position. We acquired 84 thousand gross hectares, primarily in Saskatchewan, surpassing 1983 purchases by 133 percent. Although we acquired more lands during the year, our Corporation experienced a net decline in our mineral land base due to normal lease expiries.

Funds from Operations



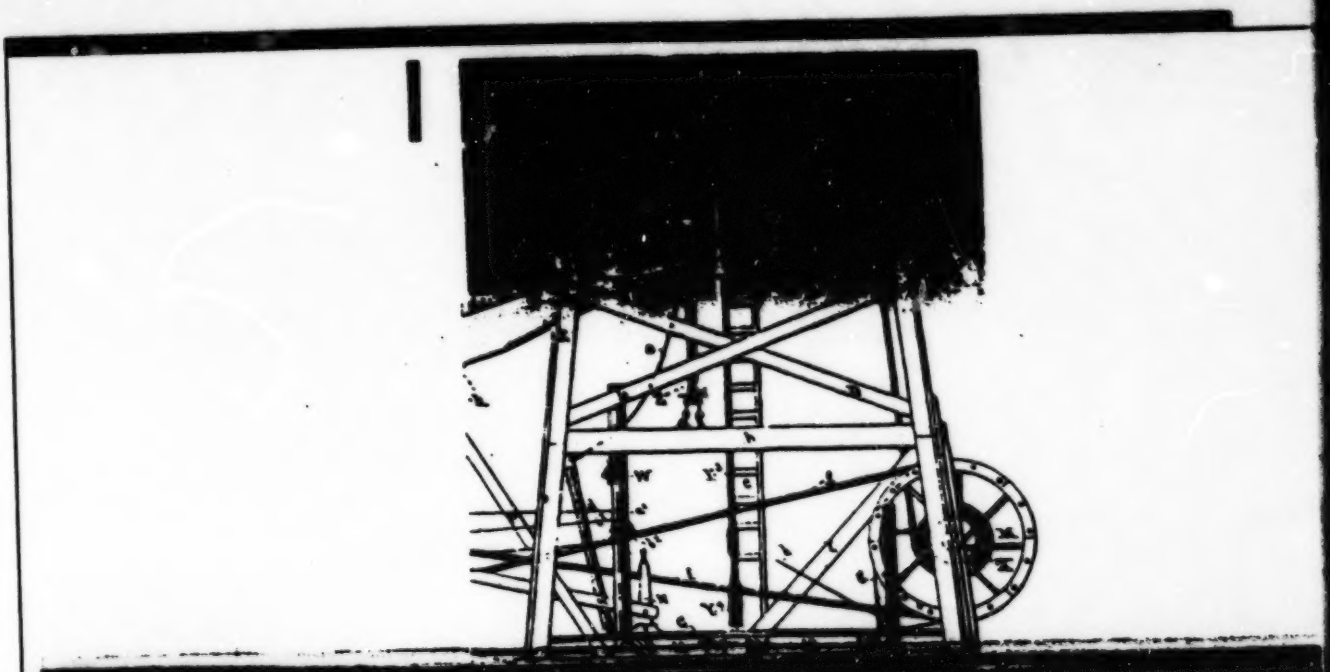
Activity during the year has built a solid framework for the future — a future which Saskoil views with cautious optimism. The most notable area of conjecture revolves around oil pricing. Although there is downward pressure on world oil prices, the Canadian regulated pricing regime is being reviewed in favour of a market-oriented approach. For our Corporation, the effect of any short term drop in the world price should be offset by Canadian price deregulation. In the long term, increases in world prices would translate into higher revenues for our Corporation.

The strong demand for heavy oil in the United States market is expected to continue. In a Canadian deregulated environment, we will take steps to diversify our revenue base and secure stable markets for our crude oil production. Upgrading facilities in the province would expand the market for our heavier crudes and allow Saskatchewan to consume a portion of its own crude oil production.

Our assessment of Saskatchewan's heavy oil resources indicates that over three billion cubic metres of oil are in place, divided between reserves that can be recovered through primary and enhanced oil recovery. Following a successful steam stimulation test carried out during the year, our Corporation is encouraged by the opportunities presented by enhanced oil recovery. Saskoil will continue to invest in enhanced oil recovery pilot projects in an effort to improve the recovery factor from heavy oil pools and our older light and medium oil fields.

Over the past two years, we have established aggressive and demanding long range goals for Saskoil. As a result of the initiative, expertise and dedication of our people, we have made tremendous progress towards achieving these goals. Supported by the strong commitment of our employees I am confident in projecting a prosperous future for our Corporation.

William J. Douglas
President, Saskoil



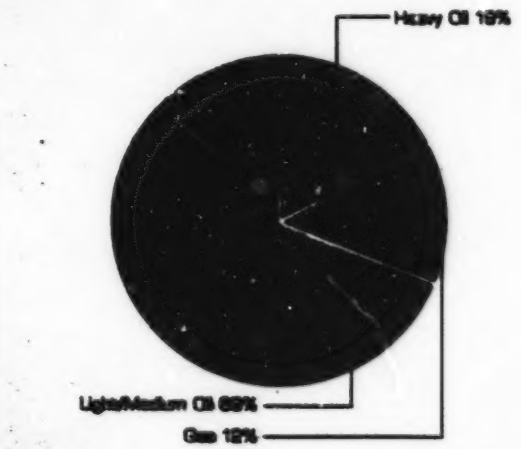
"During the year we concentrated our exploration expenditures on prospective areas that will provide for future growth while ensuring a suitable return on investment."

Donald L. Tough
Vice-President, Exploration

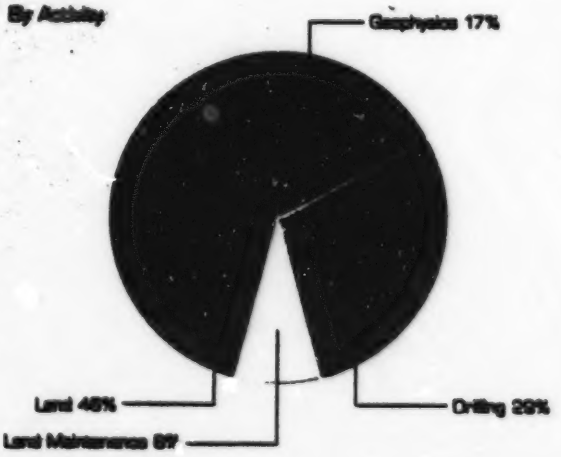
Exploration activity in Saskatchewan has reached record levels since the introduction of the royalty holiday in 1982. The total number of exploratory wells drilled in the province has escalated from 198 in 1981 to 692 in 1984. Saskoil has made a marked contribution to this growth. The Corporation participated in the drilling of 97 exploratory wells, 79 of which were in Saskatchewan. Of these wells drilled in 1984, 42 were cased for oil and 15 for gas. Saskoil acquired 84 thousand gross hectares (28 thousand net hectares) of mineral rights and shot or

1984 Exploration Expenditures

By Objective



By Activity



purchased two thousand kilometres of seismic. Exploration expenditures on drilling, seismic and land purchases amounted to $17 million. During 1984, 60 percent of these expenditures involved partners, the net corporate share averaging 65 percent.

Saskoil Land Position

	1984	1983	1982
	(thousands of net hectares)		
Acquisitions			
Saskatchewan	22	6	4
Alberta	4	0	1
Manitoba	2	6	4
	28	12	9
Balance at Year End			
Saskatchewan	345	589	752
Alberta	75	125	127
Manitoba	22	19	19
	442	733	898

Land

Selective acquisitions of new lands strengthened the Corporation's land position. Mineral leases purchased in 1984 surpassed 1983 acquisitions by 133 percent. Sixty-four thousand gross hectares (22 thousand net hectares) were acquired in Saskatchewan with the balance located in Alberta and Manitoba. Over 80 percent of the lands were acquired by purchase of crown lands and the remainder by way of freehold rights and farmins.

Although there was an increase in land acquisitions, 303 thousand hectares expired, yielding a net decline in Saskoil's land base. Expired leases were acquired in the late 1970's largely through a major farmin arrangement with Saskatchewan Power Corporation and through participation in the Saskatchewan Heavy Oil Project. The SPC agreement covered 730 thousand gross hectares and the S.H.O.P. lands, acquired jointly with Gulf and Petro-Canada, accounted for 225 thousand gross hectares. Over the years the Corporation invested over $35 million evaluating these lands and participated in the drilling of 427 wells with oil discoveries at Plover Lake, Cactus Lake, Court and Senlac. Expired lands were judged by Saskoil to be of no economic merit.

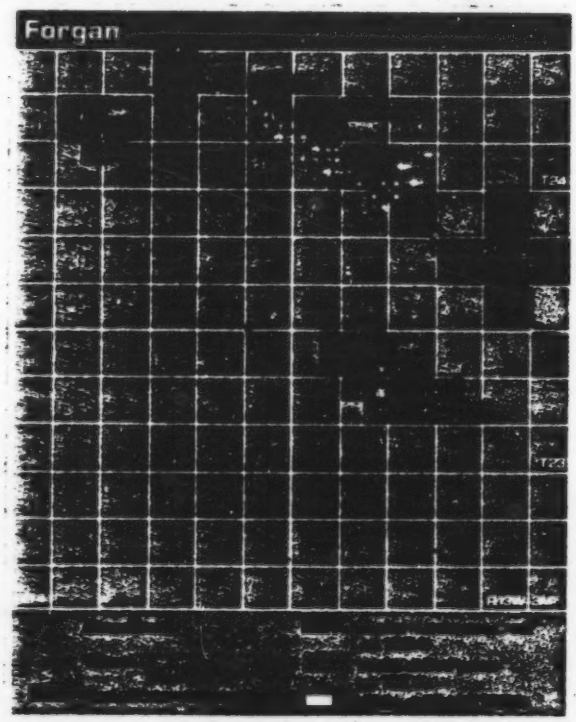
In spite of intense competition and rising land prices, Saskoil has continued to be successful in acquiring mineral leases on new and existing plays. In 1985, the Corporation will continue to enhance its land base through selective purchases and farmins to support prospects with oil and gas potential.

Oil Exploration

In 1984, 69 percent of total exploration expenditures was allocated to the light oil areas of Saskatchewan, Manitoba and Alberta. Saskoil participated in the drilling of 49 exploratory wells resulting in 29 cased light oil wells.

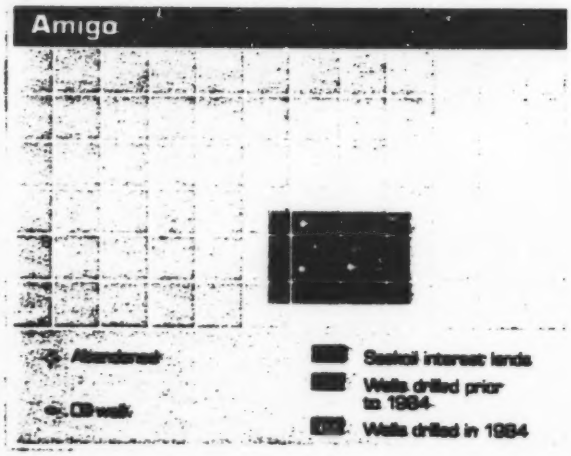
Saskoil's activity in the heavy oil areas of northwest and west central Saskatchewan resulted in the drilling of 30 exploratory wells, yielding 13 successful heavy oil wells.

The Corporation launched an extensive seismic program to evaluate the Mission Canyon play in southeast Saskatchewan. Four parcels of crown lands consisting of 630 net hectares were purchased in response to encouraging seismic results. Plans for 1985 include the drilling of three exploratory wells on this play.



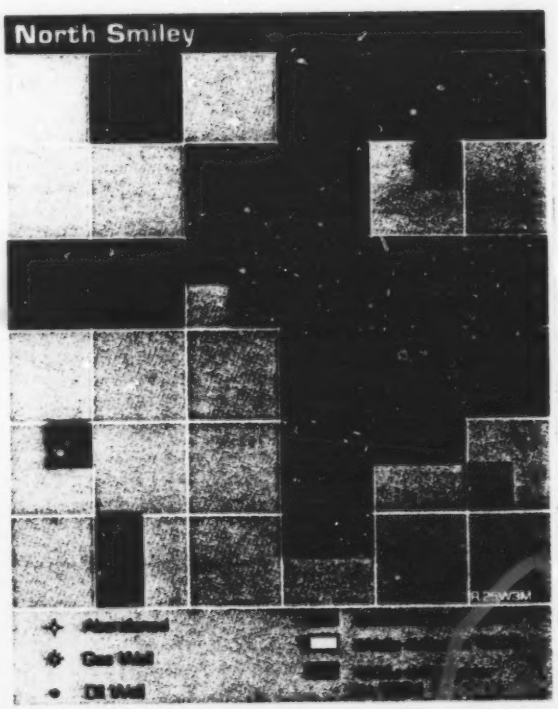
Forgan Forgan is located in southwest Saskatchewan, 90 kilometres north of Swift Current. During the year the Corporation participated in the drilling of four exploratory wells, three of which were cased for Viking light oil. Following exploration initiatives in 1983, 30 development wells were drilled on this prospect.

In partnership with Precambrian Shield Resources Ltd., Saskoil has from 30 percent to 62.5 percent working interest in 2450 net hectares, including the 680 net hectares acquired in 1984. Wells drilled on this prospect have an average production rate of 3.8 cubic metres per day.



Amigo The Keg River play, situated in northwest Alberta, was the major area of focus of the Corporation's Alberta light oil prospects. On the Amigo prospect Saskoil holds a 10 percent interest in a successful exploratory well drilled in 1984 by the operator, Strand Resources Ltd. Production testing of the well has resulted in more than 65 cubic metres per day. During 1984 the Corporation aquired 3,050 net hectares of mineral rights and 60 kilometres of seismic data on the Keg River play. Based on geophysical evaluations, Saskoil plans to participate in the drilling of three to five wells in 1985.

North Smiley A key area of activity in west central Saskatchewan was the Bakken play at North Smiley, located 20 kilometres southwest of Kindersley. Of the six exploratory wells drilled by Saskoil, one was cased for heavy oil, two were cased for gas and one for both gas and heavy oil. In addition, two development wells were drilled and cased for heavy oil. The Corporation holds a 100 percent working interest in 4,300 net hectares. Development plans in 1985 include the drilling of 10 to 15 development wells with both oil and gas potential. This prospect is on the same geological horizon as another Saskoil pool within three kilometres at West Buffalo Coulee.



Gas Exploration

The bulk of Saskoil's gas exploration activity in 1984 involved land and seismic acquisition in Saskatchewan. Saskoil purchased over 12 thousand hectares of gas lands and shot 400 kilometres of seismic. In northwest Saskatchewan the Corporation participated in the drilling of 18 wells, 15 of which were cased for gas. Drilling reservations and permits were acquired with joint venture partners at Alsask, Freemont, Makwa Lake and Beacon Hill. Following seismic evaluations, it is anticipated that at least seven exploratory gas test wells will be drilled in 1985.

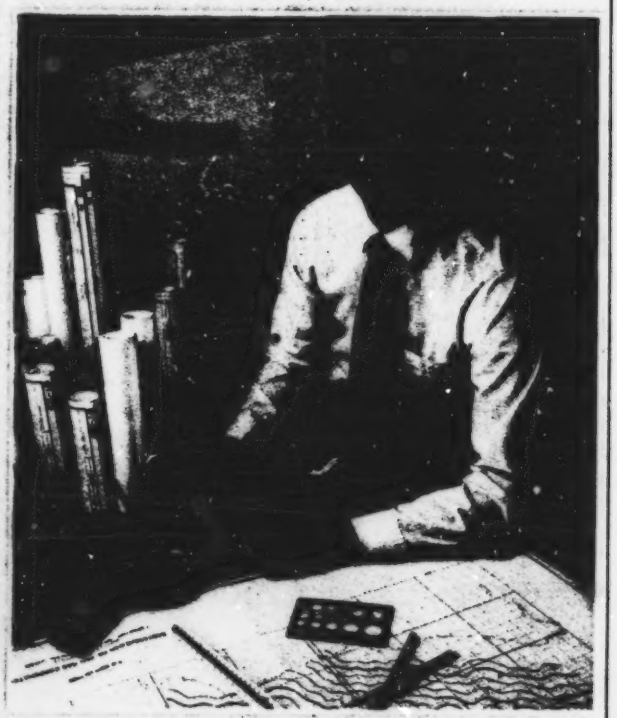
Outlook

High potential exists for further development of oil and gas prospects in western Canada, particularly in Saskatchewan. Based on the 1983 Geological Survey of Canada Report on oil and gas, over 95 million cubic metres of light and medium oil remain to be found primarily in the southern producing areas of the province.

An assessment by Saskoil of Saskatchewan's heavy oil potential indicates that over three billion cubic metres of oil are in place, divided equally between reserves that can be recovered through primary production and through enhanced oil recovery. In those pools with primary production potential, it is estimated that 80 percent of the reserves has been developed, leaving 20 million cubic metres of recoverable reserves.

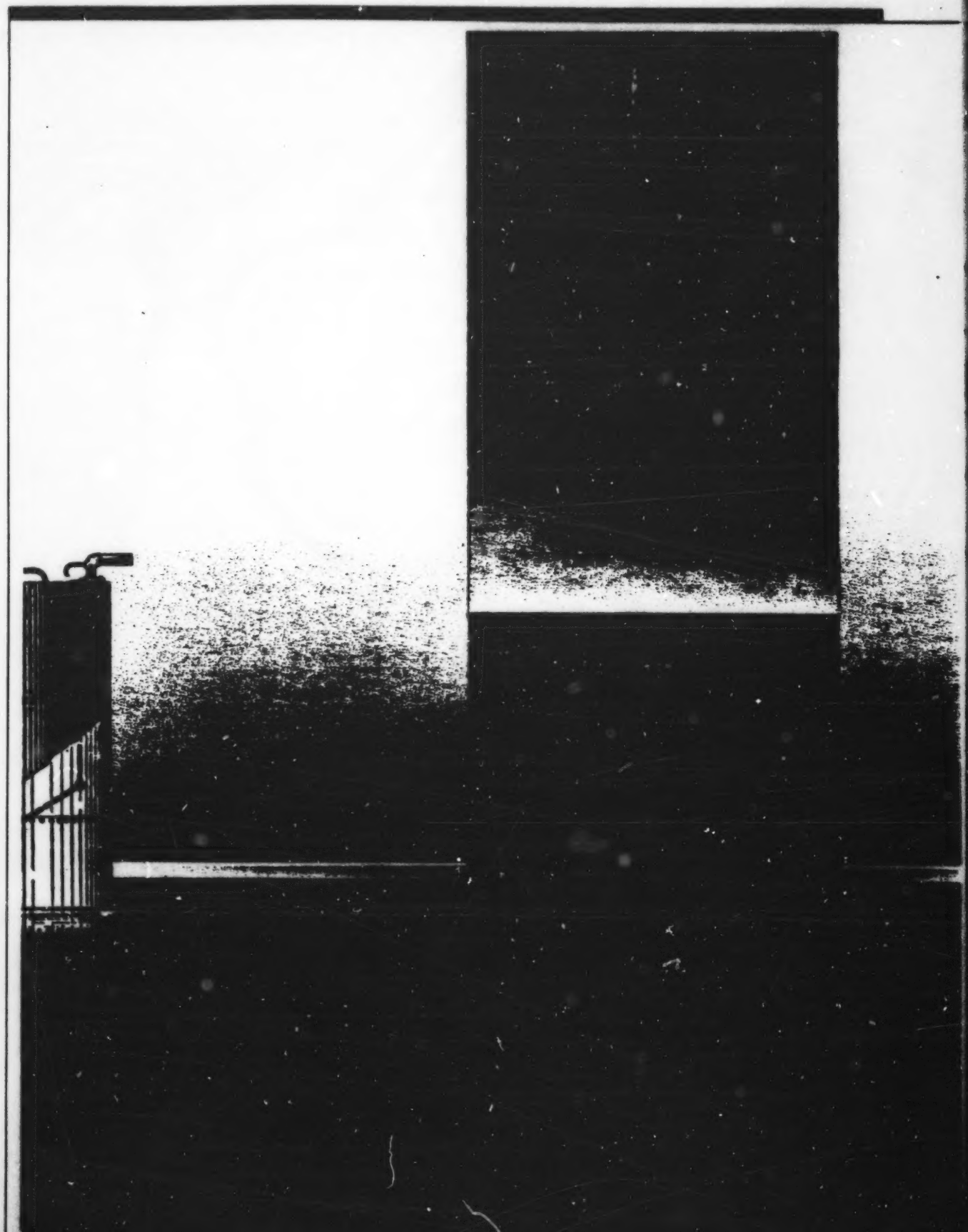
Recent initiatives by the governments of Saskatchewan and Alberta appear promising to the natural gas industry in Saskatchewan. By 1990 it is expected that natural gas from Saskatchewan sources will meet two-thirds of Saskatchewan's consumption requirements of three billion cubic metres per year with the remaining one-third obtained from Alberta.

The thrust of Saskoil's future exploration programs will be directed towards finding and developing plays with long term reserves potential. It is intended that half the light oil exploration budget will be designated for Saskatchewan exploration projects with the balance directed towards Alberta and Manitoba prospects. In Alberta Saskoil will pursue joint venture and farmin opportunities involving known oil plays where reserves potential is high and crown lands are available. The Corporation expects that joint venture partners will provide greater than 50 percent of Alberta investment opportunities.



Approximately $3 million per year for the next three years will be allocated to assessment of heavy oil prospects with primary production potential in the west central/northwest districts of Saskatchewan and east central Alberta.

Future gas exploration efforts will be concentrated on the Cretaceous sands in western Saskatchewan. It is expected that gas produced from these plays will be available to meet increased demand in Saskatchewan markets. The extent of gas exploration in Alberta will depend on the availability of gas sales contracts.



"In 1984, we were able to solidify our existing operations while at the same time initiating new projects which will employ sophisticated oil recovery technology."

Dale M. Christensen
Vice-President, Resource Development

During 1984, the Corporation participated in the drilling of a record 313 (93 net) development wells and produced 819 thousand cubic metres of crude oil, exceeding 1983's record production level by 10 percent. Capital expenditures of $27.4 million on development and production represented an increase of 40 percent from 1983. The majority of these expenditures was directed at primary development programs and construction of major oil and gas processing facilities to enhance production efficiency in the heavy oil areas of Saskatchewan.

Primary Development

Approximately 70 percent of Saskoil's capital expenditures on development was directed at primary development. Activity was concentrated on Viking light oil development drilling in western Saskatchewan and several new infill drilling projects at mature light and medium oil fields. This activity added 287 thousand cubic metres of proven reserves.

Viking Light Oil

The development phase of the Corporation's involvement in the Viking light oil play was largely completed by 1984 year end. Saskoil spent $4 million for the development of two pools at Forgan and Dodsland.

Forgan Thirty (19 net) development wells were drilled at Forgan with 24 of the wells capable of economic production levels. The reserve additions from the successful wells were better than forecasted, which compensated for the six abandoned wells.

Dodsland At Dodsland, 29 (14.5 net) additional development wells drilled by a partner, Westar Petroleum, raised Saskoil's share of production by 50 cubic metres per day. Development of this reservoir was completed by year end.

Infill Drilling

Saskatchewan Energy and Mines approved applications from Saskoil and several partners for reduced well spacing at oil fields not being drained effectively under existing spacing. The Corporation participated in the drilling of 157 (16 net) infill wells. One hundred and four (one net) of these wells were drilled at Eagle Lake and the Glenesth Unit in west central Saskatchewan. Production from these infill wells qualified for new oil prices and royalties, including the provincial royalty holiday in effect during 1984.

Parkman The Parkman field, located in southeast Saskatchewan, was originally developed on a 32 hectare spacing pattern. Spacing was reduced to 16 hectares resulting in 35 (10 net) wells drilled at this field during the year. The additional wells increased Saskoil's share of production from the Parkman field by approximately 55 cubic metres per day.

Star Valley Frobisher-Alida Beds This pool has been a prolific producer since its discovery in 1960. The seven (one net) wells drilled in 1984 were no exception to this history, with average well production in excess of 10 cubic metres per day.

Queensdale By year end 11 (four net) wells in the planned 24 well infill drilling program at Queensdale were on production. Results were encouraging with average initial well production at eight cubic metres per day. The balance of drilling is expected to be finished in 1985.

Non-primary Development

Non-primary recovery, including waterflood and enhanced oil recovery, provides a tremendous opportunity for the Corporation to increase reserves and production. Although capital expenditures were limited, Saskoil conducted engineering studies and project planning required in order to proceed with non-primary development projects.

Onion Lake Saskoil holds a 100 percent interest in mineral leases at Onion Lake, covering five thousand hectares of land. The pool is located 65 kilometres north of Lloydminster and was discovered in 1978. The net pay thickness of the reservoir is extremely promising, ranging up to 20 metres. Because the oil in the Onion Lake pool is too heavy to produce under primary

recovery, the Corporation has considered it a prime candidate for the application of an enhanced oil recovery scheme. In July 1984 the Corporation drilled a well and conducted a successful steam stimulation test. Estimated capital costs for the implementation of a pool-wide enhanced oil recovery scheme are in excess of $60 million. The capital expenditures and technological risks associated with the Onion Lake project are too large for Saskoil to undertake alone. During 1985, the Corporation will be actively pursuing a joint venture partner.

Marsden The Marsden field, which consisted of 27 wells at year end, was discovered by Saskoil in 1979. It is estimated that 65 percent of the primary reserves (two to three percent of the original oil in the reservoir) has already been produced. To increase recovery from this reservoir, Saskoil is planning the implementation of a waterflood recovery scheme. The application of waterflooding is expected to increase the recovery factor to 15 percent of the eight million cubic metres of oil in the reservoir. The expected additional reserves at this pool could be greater than 10 percent of the Corporation's 1984 total proven reserves, clearly demonstrating the tremendous potential of Saskoil's heavy oil resources.

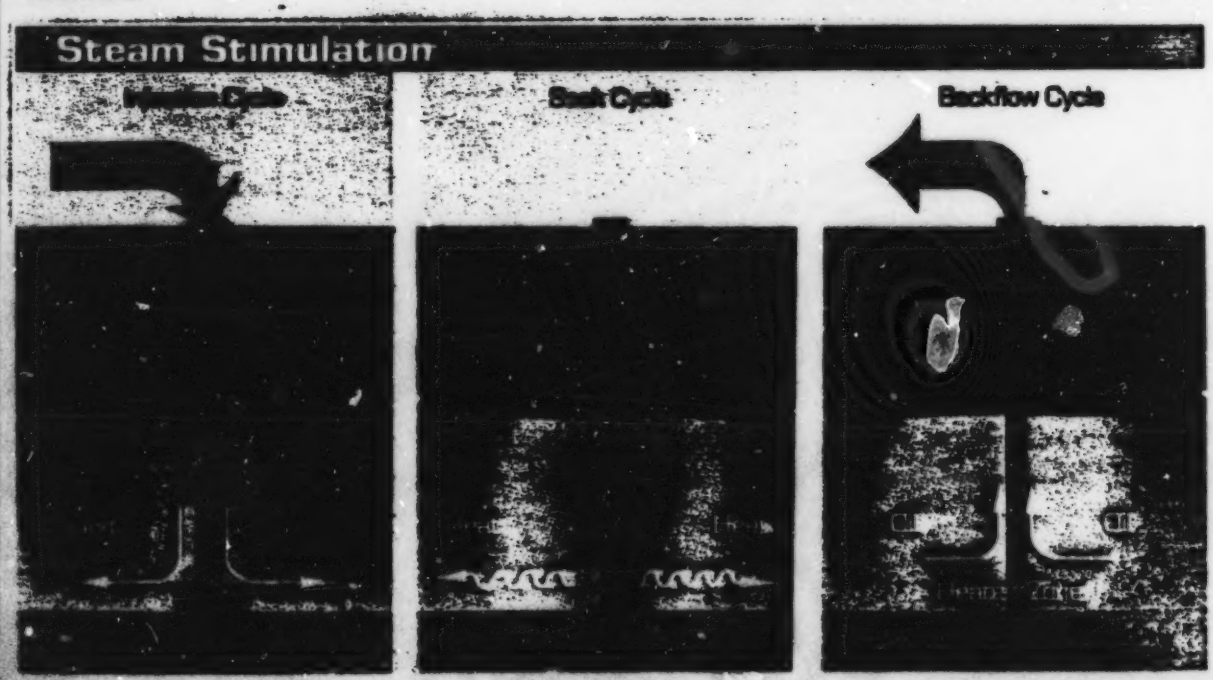
Oil and Gas Facility Construction

Capital expenditures on facility construction rose from $1.8 million in 1983 to $7.3 million in 1984. This increase was attributable to the Corporation's emphasis on improving production efficiency at maturing heavy oil fields.

Marsden Construction of an oil gathering system, costing $2 million, has eliminated lost production through road ban periods and the need for infield trucking. In anticipation of a waterflood system in this field, water injection lines were installed at the same time as lines for the oil gathering network. Expansion of Marsden's fuel gas system, planned for 1985, will initiate the sale of associated gas to Saskatchewan Power Corporation.

Court A central battery, flowline and satellite well testing system was installed at a cost of $2 million to service 31 wells in the Court field. A fuel gas gathering and distribution system was installed in conjunction with the flowlines to provide lease and battery fuel.

The battery and flowline system has two advantages. First, annual production will increase due to the elimination of shut-ins caused by road bans and inclement weather. Second, operating



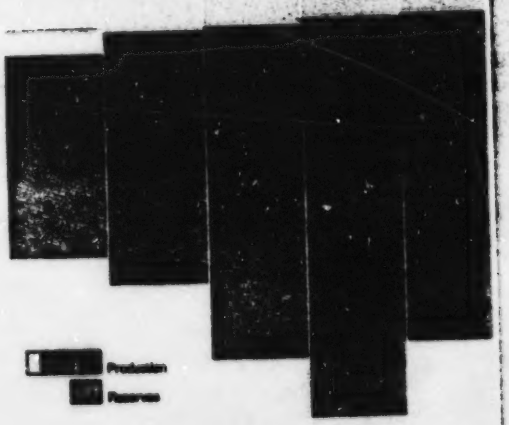
costs will be lowered by eliminating infield trucking and reducing road maintenance expenditures.

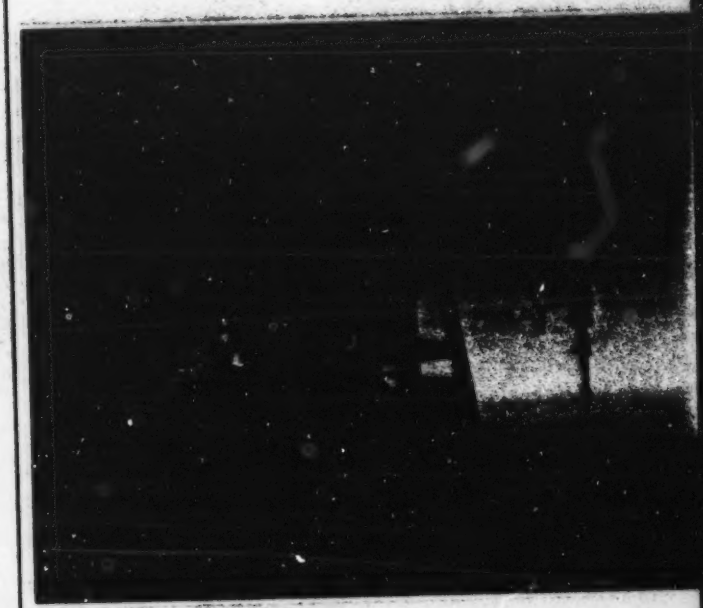
The gas system will reduce operating costs by utilizing the solution gas for fuel. The gathering network will also enable the sale of associated gas if future volumes warrant establishing a sales contract with Saskatchewan Power Corporation.

Buffalo Coulee Gas compression, treating and transmission facilities were installed at a cost of $935 thousand to serve the Buffalo Coulee and West Buffalo Coulee fields. The system facilitates the sale of solution gas in excess of lease requirements. In addition to revenues generated from gas sales, earnings from oil production will increase as wells prone to being shut-in due to high gas/oil ratios can remain on production.

Plover Lake The Plover Lake battery, costing $600 thousand, will handle crude oil from Saskoil's Court, Luseland and Plover Lake heavy oil fields in west central Saskatchewan. The battery incorporates a treating system capable of handling emulsion from Plover Lake and Luseland and clean sales oil from Court and other external sources. Plans for Plover Lake also include salt water disposal facilities, a fuel gas distribution system and a tie-in to the Cactus Lake Pipeline.

Oil Production/Reserves





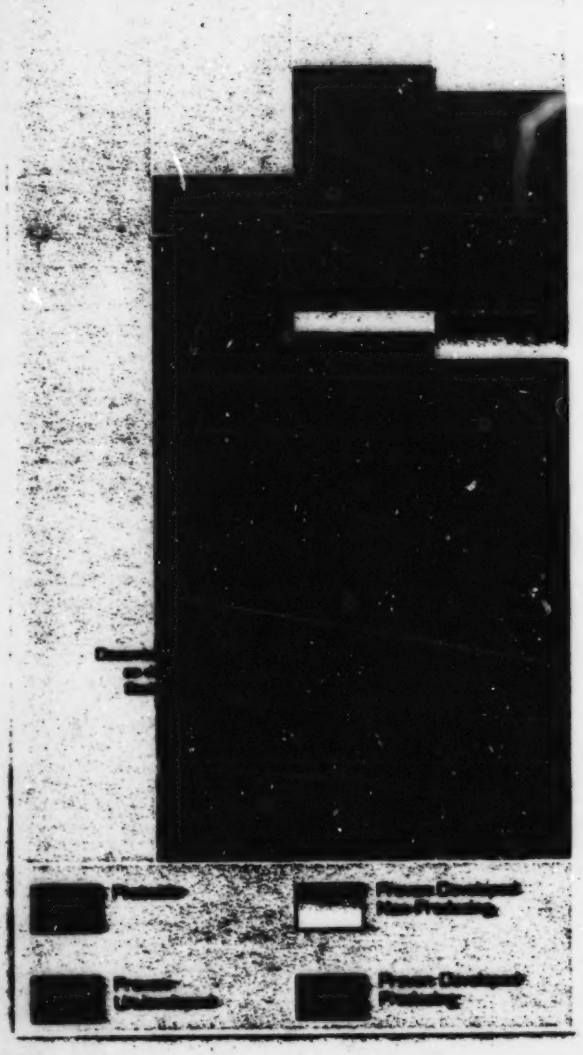
Production Operations

The successful results of 1983's drilling program combined with an abnormally warm winter and strong market demand for Saskatchewan crude oil enabled Saskoil to produce at capacity. In the first half of 1984, Saskoil produced 405 thousand cubic metres of oil compared with 362 thousand cubic metres in the first half of 1983. Saskoil maintained its strong performance throughout the year with annual oil production reaching 819 thousand cubic metres.

Marketing and Transportation

Historically, Saskoil has had limited involvement in the marketing and transportation of crude oil. Following an extensive study completed in 1984, Saskoil determined it must diversify its market opportunities and become directly involved in the marketing of crude oil. During 1985, the Corporation will actively pursue new markets which will reduce the impact of market instability and enhance Saskoil's ability to exploit opportunities in a Canadian deregulated environment.

Oil Reserves



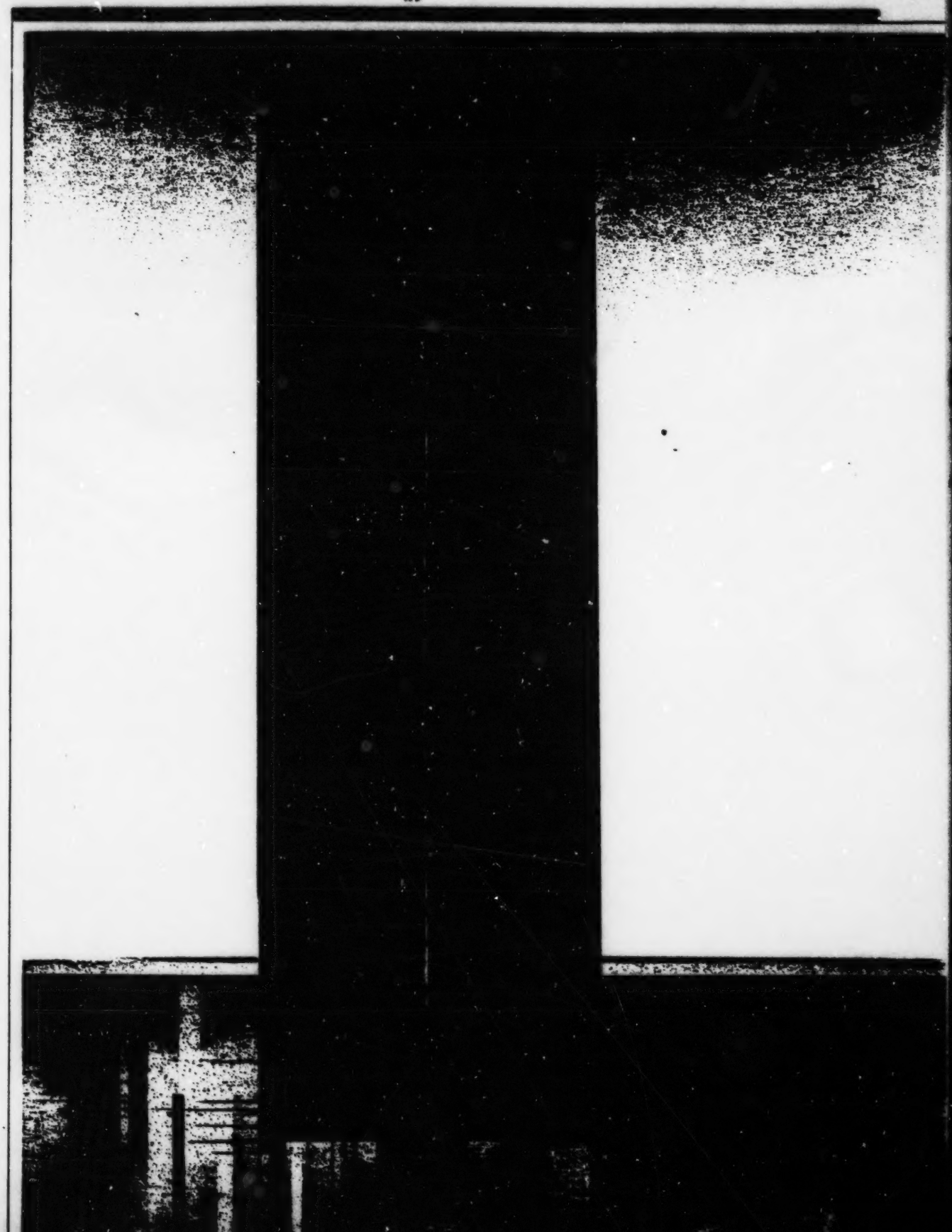
The Corporation's engineers review oil and gas reserves on a regular basis in order to provide current estimates for established reservoirs and to evaluate new discoveries and extensions. As well, independent consultants are periodically contracted to provide an assessment of corporate estimates. In 1984, Coles Nikiforuk Pennell Associates Ltd. completed an evaluation of the Corporation's oil and gas interests that resulted in two major changes: an increase in total proven plus probable reserves and significant reclassifications between proven and probable reserves.

The major change from the proven to probable category occurred for certain fields utilizing enhanced oil recovery techniques where the consultants estimated that the recovery rates using current technology are less than the rates estimated by corporate engineers. Overall, approximately 20 percent of reserves previously considered proven are now classified as probable. This had the effect of increasing the charge against earnings for depletion because reserves in the probable category are not used in establishing the per unit depletion rate.

Total Reserves (December 31, 1984)

	Oil			Gas
	Light & Medium	Heavy	Total	Total
	(10^6m^3)			(10^6m^3)
Proven Producing Reserves at December 31, 1983	7,251	1,916	9,167	744
Adjustments	(1,492)	17	(1,475)	(666)
Revisions of previous estimates	48	16	64	11
Extensions, discoveries and other additions	177	172	349	—
	5,984	2,121	8,105	67
Less: Production	481	338	819	2
Reserves at December 31, 1984	5,503	1,783	7,286	65
Proven Non-producing	342	349	691	433
Probable	1,969	1,272	3,241	477
Total Proven Plus Probable	7,814	3,404	11,218	975

In prior years the Corporation used proven developed oil and gas reserves in calculating this rate. In 1984 Saskoil used proven producing oil and gas reserves, which excluded those reserves which are proven but are shut-in pending expenditures required to permit production. The effect of this change on the depletion rate was not material.



"Record earnings and cashflow, surpassing 1983 records, have resulted in a very healthy financial position. The Corporation has the financial capability to support the ongoing expansion of its oil and gas reserves."

Harold W. Johnson
Vice-President, Finance

In nineteen eighty-four was another financially successful year for Saskoil with record sales and record earnings. Earnings were $44 million, up $13.1 million (42 percent) from the 1983 record of $30.9 million. This improvement was mainly due to increased production and prices combined with lower average royalty rates, offset in part by higher depletion expenses.

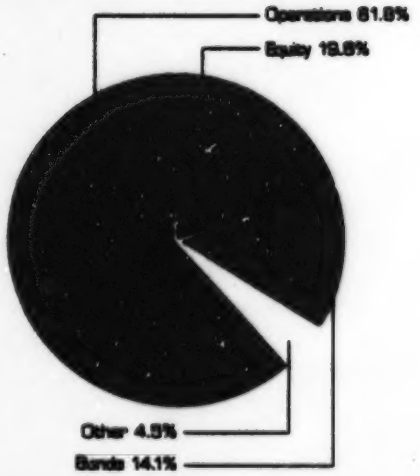
Net sales revenue was $110.7 million, up 28 percent from the 1983 figure of $87.9 million.

Oil production rose by 71 thousand cubic metres in 1984 to 819 thousand cubic metres. This contributed $2.6 million to earnings. Of total sales, 98 percent was from Saskatchewan production, with the remainder coming from Alberta and Manitoba.

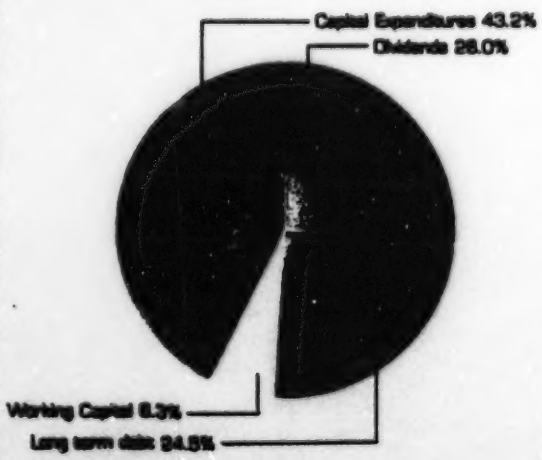
The average price of oil produced increased $13.33 per cubic metre, boosting 1984 earnings by $5.5 million. The majority of Saskoil's crude oil production is sold to refineries in the United States and is valued in American dollars. The decline in the value of the Canadian dollar as compared to the United States dollar was the major contributor to the average price increase.

The average royalty rate incurred by Saskoil fell 4.2 percent in 1984, increasing earnings by $6.6 million. The Saskatchewan government's one year royalty free period granted to new wells drilled was the main reason for the reduced average royalty rate. The Corporation produced 69 thousand cubic metres of oil which were free

Source of Funds



Use of Funds



Factors Affecting Earnings

1984 vs. 1983

(millions of dollars)

	Oil Production	Oil Prices	Other Factors	Total Increase/ (Decrease)
Crude oil and natural gas sales	$12.9	$11.8	$ .2	$24.9
Royalties	(4.5)	(4.2)	6.6	(2.1)
Interest and other income			1.1	1.1
Operating and administrative costs	(2.1)		1.2	(.9)
Depletion, depreciation and amortization	(1.2)		(5.0)	(6.2)
Grant in lieu of Petroleum and Gas Revenue Tax	(2.3)	(2.1)		(4.4)
Interest expense			.7	.7
Total	$ 2.8	$ 5.5	$4.8	$12.1

of crown royalties. However, royalties paid amounted to $50.3 million, a four percent increase from 1983.

Decreased interest expense and administrative costs combined with higher interest income contributed $3.6 million to earnings.

An increase in depletion expense reduced earnings in 1984 by $5 million. Of this amount, $900 thousand was due to higher costs of replacing reserves while $4.1 million resulted from lower oil and gas reserve estimates.

Funds generated by operations amounted to $63.2 million in 1984 — up 44 percent from the $43.9 million generated in 1983. This was more than sufficient to fund the Corporation's capital program.

Total assets increased $59 million to $273.9 million. The most significant increase was in the Corporation's cash balance which almost tripled to $45.2 million. Property and equipment additions were $44.2 million for the year; deductions for depletion, depreciation, amortization and incentive credits totalling $23.3 million resulted in a net increase of $20.9 million. Accounts receivable increased almost 50 percent to $25.9 million and a similar increase occurred in accounts payable. These both reflect increased production, sales and capital program costs for projects operated by Saskoil and its partners.

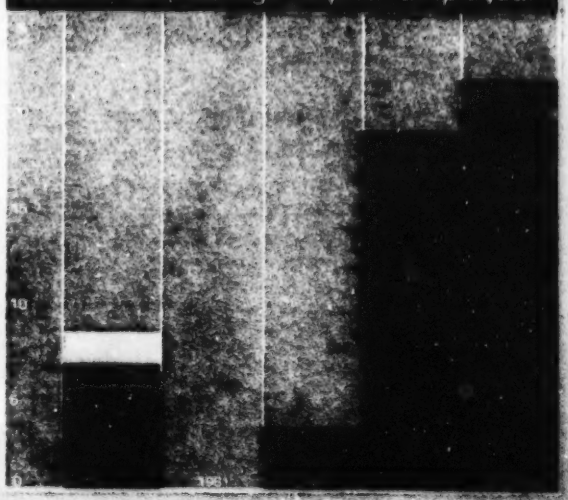
Return on average capital employed rose to 21.8 percent increasing the four year average to 12.2 percent. Saskoil established the financial objective of realizing and maintaining a four year average of 14 percent; the actual average has increased more than three times from 3.5 percent at the end of 1982.

In November, 1984 Saskoil offered residents of Saskatchewan the opportunity to participate in the Corporation's future through a $15 million issue of Saskoil Participation Bonds which were fully guaranteed as to principal and interest by the Province of Saskatchewan. The bonds, which were fully subscribed in a matter of days, were new in concept. They contained a 10 percent fixed rate of interest plus a participation rate of 0.03 percent of total sales less royalties. The funds raised will be used in future capital programs. Based on 1984 net sales revenue the participation interest rate was 3.3 percent. The total interest rate for the March 31, 1985 interest payment to bondholders will be 13.3 percent.

Saskoil has declared a $6.6 million dividend payable to Crown Investments Corporation of Saskatchewan, the province's holding company for crown corporations. This compares with a 1983 $30 million dividend which was partly offset by a $20 million equity advance received back from Crown Investments Corporation in early 1984.

The Corporation's record performance during the year will permit the repayment from cash resources of the outstanding $25 million debt to the Province of Saskatchewan due on November 1, 1985.

Return on Average Capital Employed



Management Report

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements of Saskatchewan Oil and Gas Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada, including, where necessary, amounts that are based on informed judgements and management estimates. Other financial information in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records properly maintained to provide reliable information in the preparation of financial statements and other data.

The Corporation's external auditors, Clarkson Gordon, have examined the December 31, 1984 consolidated financial statements, and their report is set out below.

The Audit Committee of the Board, which is comprised of directors who are not employees of the Corporation, has reviewed the consolidated financial statements, including the notes thereto, with management and both the internal and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Auditors' Report

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Oil and Gas Corporation as at December 31, 1984 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Regina, Canada
March 7, 1985

Chartered Accountants

	1984	1983
	(thousands of dollars)	
Assets		
Current Assets		
Cash, including short term deposits	$ 45,193	$ 16,580
Accounts receivable	25,927	17,649
Inventories and prepaid expenses	3,732	2,989
	74,852	37,218
Property and Equipment, at cost less accumulated depletion, depreciation and amortization (note 3)	198,462	177,605
Unamortized Discount and Expense on Long Term Debt	575	60
	$273,889	$214,883
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 25,199	$ 16,138
Grant payable in lieu of tax (note 4)	3,214	2,639
Dividend payable (note 5)	6,605	10,000
Long term debt due within one year (note 6)	25,000	—
	60,018	28,777
Deferred Gas Revenue	337	—
Dividend Payable (note 5)	—	20,000
Long Term Debt (note 6)	15,000	25,000
	75,355	73,777
Equity, Province of Saskatchewan		
Equity Advances (note 7)	145,500	125,500
Retained Earnings	53,034	15,606
	198,534	141,106
	$273,889	$214,883

Approved by the Board:

Herb C. Pinder Jr.
Director

Patrick W. Pitka
Director

The accompanying Notes are an integral part of this Statement

Consolidated Statement of Earnings For the Year Ending December 31, 1984

	1984	1983
		(thousands of dollars)
Revenue		
Crude oil and natural gas sales	$160,935	$136,047
Less: Royalties	50,251	48,142
Net sales revenue	110,684	87,905
Interest and other income	4,309	3,247
Net operating revenue	114,993	91,152
Expenses		
Operating and administrative costs	34,681	33,725
Depletion, depreciation and amortization	19,162	12,974
Grant in lieu of Petroleum and Gas Revenue Tax (note 4)	14,544	10,222
Interest (note 8)	2,573	3,302
Total expenses	70,960	60,223
Earnings for the Year	**$ 44,033**	$ 30,929

The accompanying Notes are an integral part of this Statement

Consolidated Statement of Retained Earnings For the Year Ending December 31, 1984

	1984	1983
		(thousands of dollars)
Retained Earnings, Beginning of Year	$ 15,606	$ 14,677
Earnings for the Year	44,033	30,929
Dividend (note 5)	(6,605)	(30,000)
Retained Earnings, End of Year	**$ 53,034**	$ 15,606

The accompanying Notes are an integral part of this Statement

Consolidated Statement of
Changes in Financial Position for the
Year Eding December 31, 1985

	1984	1983
	(thousands of dollars)	
Funds Were Provided From:		
Operations		
Earnings from operations	$ 44,033	$ 30,929
Add: Depletion, depreciation and amortization	19,208	13,007
Funds from operations	63,241	43,936
Proceeds From Disposal of Assets	773	1,155
Deferred Gas Revenue	337	—
Government Incentives (note 9)	3,425	3,580
Sale of Bonds (Net of Issue Costs) (note 6)	14,439	—
Equity Advances	20,000	—
	102,215	48,671
Funds Were Used For:		
Acquisition of Property and Equipment	44,217	30,080
Repayment of Long Term Debt	—	10,000
Long Term Debt Due Within One Year	25,000	—
Dividend — 1984 (note 5)	6,805	—
Dividend — 1983 (note 5)	20,000	10,000
	95,822	50,080
Increase (Decrease) in Working Capital	$ 6,393	$ (1,409)
Increase (Decrease) in Working Capital Components:		
Cash, including short term deposits	$ 28,613	$ 8,673
Other current assets	9,021	(4,257)
Dividend payable (note 5)	3,395	(8,432)
Other current liabilities	(34,636)	2,607
Total Increase (Decrease) in Working Capital	$ 6,393	$ (1,409)

The accompanying Notes are an integral part of this Statement

1. Summary of Significant Accounting Policies

The consolidated financial statements of Saskatchewan Oil and Gas Corporation ("the Corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of numerous estimates and approximations. The Corporation's more significant accounting policies are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of Saskatchewan Oil and Gas Corporation and its wholly-owned subsidiary, Saskoil Resources Inc.

Substantially all of the Corporation's exploration and production activities are conducted jointly with others. These consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

Full Cost Method of Accounting

The Corporation follows the full cost method of accounting for its oil and gas operations whereby all costs related to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling both productive and non-productive wells, and overhead expenditures related to exploration activities.

Proceeds from minor property and equipment sales are applied against the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property and equipment sales are recognized in the statement of earnings.

Enhanced Oil Recovery

Laboratory and field tests of enhanced oil recovery processes preliminary to the establishment of potentially economic projects are expensed as incurred. Expenditures on potentially economic projects are capitalized pending determination of commercial viability. Costs of viable projects are charged to the full cost pool. Costs of non-viable projects are expensed.

Depletion, Depreciation and Amortization

Costs capitalized under the full cost method of accounting are depleted using the unit-of-production method based on estimated recoverable proven producing reserves of oil and gas as determined by corporate engineers with assistance by an independent consultant as required. This differs from previous years where depletion was based upon estimated recoverable proven developed reserves.

As a result of a reserves report completed during the year by an independent consultant, there was a significant reduction in those reserves upon which depletion is calculated. The Corporation has determined that the reduction in reserves resulting specifically from the change in the reserves definition is not material.

Depreciation of wellhead equipment, field equipment and buildings, tanks and flowlines is calculated using the unit-of-production method as previously described. Depreciation and amortization of other property and equipment is calculated at rates which will charge original costs to operations over the estimated useful lives of the respective assets using the straight-line method. Leasehold improvements are amortized over the remaining terms of leases in effect. Discount and expense on long term debt is amortized over the life of the long term debt.

Inventories

Inventories are valued at the lower of weighted average cost and replacement value.

2. Status of Corporation

The Corporation was established in accordance with the Saskatchewan Oil and Gas Corporation Act, Chapter S-32, Revised Statutes of Saskatchewan, 1978. The accounts of the Corporation are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan.

3. Property and Equipment

			1984	1983
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value	Net Book Value
				(thousands of dollars)
Petroleum and natural gas leases and rights together with exploration and development thereon	$ 208,299	$ 71,308	$ 136,991	$126,294
Production equipment	75,814	21,343	54,471	43,483
Other equipment	11,547	4,547	7,000	7,828
	$295,660	$97,198	$198,462	$177,605

4. Grant in Lieu of Tax

Under the terms of the Canada/Saskatchewan Energy Pricing and Taxation Agreements, the Corporation pays an equivalent grant in lieu of the Petroleum and Gas Revenue Tax.

5. Dividend

In 1984, the Corporation declared a dividend of $6,605,000 payable to Crown Investments Corporation of Saskatchewan.

In 1983, the Corporation declared a dividend of $30.0 million payable to Crown Investments Corporation of Saskatchewan. Of this amount, $20.0 million was paid on March 19, 1984 and concurrently a $20.0 million equity advance was received from Crown Investments Corporation of Saskatchewan. The remaining $10.0 million was paid on June 29, 1984.

6. Long Term Debt

In November, 1984 the Corporation issued $15.0 million of 10% Participation Bonds maturing March 31, 1990. These bonds are guaranteed as to principal and interest by the Province of Saskatchewan. Interest on the bonds is payable on March 31 of each year during the bond term. The interest rate is determined as the sum of 10% plus 0.03 percentage points for each full $1.0 million of corporate Net Sales Revenue for the preceding fiscal year. The 10% Participation Bonds carry a right of redemption on March 31, 1988 at $1,080 and on March 31, 1989 at $1,050 per $1,000 of bond principal.

	1984	1983
	(thousands of dollars)	
10% Participation Bonds due March 31, 1990 — interest rate, November 14, 1984 to March 31, 1985 of 13.3%	$ 15,000	$ —
Province of Saskatchewan 8.5% due November 1, 1985	25,000	25,000
	40,000	25,000
Less principal due within one year	25,000	—
	$ 15,000	$ 25,000

7. Equity Advances

As a crown corporation, the Corporation does not have share capital. Instead, the Corporation has received advances which are recorded as equity. At year end, these advances were as follows:

	1984	1983
	(thousands of dollars)	
Crown Investments Corporation of Saskatchewan	$ 54,000	$ 34,000
Saskatchewan Heritage Fund	91,500	91,500
	$145,500	$125,500

8. Interest Expense

	1984	1983
	(thousands of dollars)	
Interest on long term debt	$ 2,420	$ 3,166
Other interest	153	136
	$ 2,573	$ 3,302

9. Government Incentive Programs

During the year, the Corporation earned $55,000 ($136,000 in 1983) in grants from the Province of Alberta relating to exploration activities in that province. These amounts are accounted for as a reduction of capital expenditures.

The Government of Canada has provided that, commencing in 1981, companies with stipulated Canadian ownership will receive Petroleum Incentives Program grants based on approved expenditures on petroleum and natural gas exploration and development. The Corporation qualifies for the grants under the ownership regulations, but is ineligible because it is exempt from tax under the Income Tax Act.

The Corporation receives incentive grants under the Province of Saskatchewan's Oil and Gas Regulations 1978. In 1984 the Corporation earned grants of $3,370,000 ($3,444,000 in 1983). The grants are based on certain approved expenditures and are paid at a rate per barrel of production. When earned, these amounts are included in the consolidated financial statements as a reduction of property and equipment. At the end of 1982, the Corporation had accumulated $25.3 million in approved expenditures under the program. In 1983 the regulations were changed terminating further approved expenditures effective with 1983 and ending the grants on past expenditures in 1985. The Corporation estimates that although it had accumulated $25.3 million at the end of 1982, it will not earn $15.3 million of this because the grant payments end in 1985.

10. Commitments

Future minimum lease payments for the next five years under operating leases for office space and equipment are as follows:

1985	$ 1,837,000
1986	1,753,000
1987	941,000
1988	390,000
1989	58,000
	$5,079,000

11. Employee Pension Plan

Under the Corporation's pension plan arrangements, employee contributions are matched by the Corporation and these amounts are contributed to money-purchase pension plans. As a result, there are no unfunded pension plan liabilities and no outstanding corporate obligations.

12. Related Party Transactions

The consolidated financial statements include capital, income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and terms of settlements are described separately in the consolidated financial statements and the notes thereto.

Financial ($000's)	1984	1983	1982	1981	1980	1979
Gross oil and natural gas sales	$160,935	$136,047	$103,047	$ 60,014	$ 59,888	$ 49,962
Other revenue	4,309	3,247	1,813	729	688	462
Total revenue	165,244	139,294	105,781	60,743	60,576	50,424
Royalties	50,251	48,142	37,180	26,210	26,013	21,747
Operating and administrative costs	34,681	33,725	31,022	20,461	15,218	12,437
Depletion, depreciation and amortization	19,162	12,974	11,639	13,111	11,876	9,638
Grant in lieu of tax	14,544	10,222	8,536	3,686	—	—
Interest	2,573	3,302	4,548	3,481	3,094	2,614
Unusual items	—	—	11,268	—	—	—
Total expenses	121,211	108,365	104,213	66,949	56,201	46,436
Earnings (loss) for the year	$ 44,033	$ 30,929	$ 1,568	$ (6,206)	$ 4,375	$ 3,988
Funds provided from operations	$ 63,241	$ 43,936	$ 24,528	$ 6,938	$ 16,251	$ 13,626
Proceeds from disposal of assets	773	1,155	462	276	—	—
Government incentives	3,425	3,580	3,629	2,671	3,493	3,252
Deferred gas revenue	337	—	—	—	—	—
Equity advances	20,000	—	31,000	40,500	20,000	5,000
Long term debt	15,000	—	—	—	5,000	5,000
Total sources of funds	102,776	48,671	59,619	50,385	44,744	26,878
Capital expenditures	44,217	30,080	31,031	69,792	45,468	30,928
Long term debt due within one year	25,000	—	—	—	—	—
Dividend declared	6,605	30,000	1,568	—	—	—
Less non-current portion	—	(20,000)	—	—	—	—
Non-current portion of dividend paid	20,000	—	—	—	—	—
Repayment of long term debt	—	10,000	—	—	—	—
Cost of issuing debt	581	—	—	—	—	—
Total uses of funds	96,383	50,080	32,599	69,792	45,468	30,928
Increase (decrease) in working capital	6,393	(1,409)	27,020	(19,407)	(724)	(4,050)
Working capital (deficiency), beginning of year	8,441	9,850	(17,170)	2,237	2,961	7,011
Working capital (deficiency), end of year	$ 14,834	$ 8,441	$ 9,850	$ (17,170)	$ 2,237	$ 2,961
At end of year						
Total assets	$273,889	$214,883	$198,129	$183,712	$137,423	$ 92,559
Long term debt	15,000	25,000	35,000	35,000	35,000	30,000
Capital contributed	145,500	125,500	125,500	94,500	54,000	34,000
Retained earnings	53,034	15,606	14,677	14,677	20,883	16,508
Financial Ratios						
Royalties as % of sales	31.2%	35.4%	37.3%	43.7%	43.4%	43.5%
Working capital ratio	1.2:1	1.3:1	1.4:1	0.6:1	1.1:1	1.3:1
Return on average capital employed	21.8%	20.0%	3.1%	—	7.6%	9.0%

Operational	1984	1983	1982	1981	1980	1979
Production (gross before royalties) — 000m³						
Light/Medium oil	481	455	387	355	552	595
Heavy oil	338	293	247	182	101	59
Total oil	819	748	634	537	653	654
Gas (10^6m^3)	2	10	4	11	6	5
Proven producing reserves *(gross before royalties) — 000m³						
Light/Medium oil	5,503	7,320	6,335	4,407	3,868	4,316
Heavy oil	1,783	1,847	1,335	1,301	1,148	630
Total oil	7,286	9,167	7,670	5,708	5,014	4,946
Gas (10^6m^3)	65	744	1,149	1,219	877	632
Changes in proven producing oil reserves* — 000m³						
Reserves, beginning of year	9,167	7,670	5,708	5,014	4,946	4,601
Additions by development	349	676	331	1,231	721	999
Revisions of previous estimates	(1,411)	1,569	2,265	—	—	—
Production	(819)	(748)	(634)	(537)	(653)	(654)
Reserves, end of year	7,286	9,167	7,670	5,708	5,014	4,946
Proven non-producing reserves						
Oil (000m³)	691	—	—	—	—	—
Gas (10^6m^3)	433	—	—	—	—	—
Probable Reserves						
Oil (000m³)	3,241	—	—	—	—	—
Gas (10^6m^3)	477	—	—	—	—	—
Drilling (gross wells)	429	253	160	268	302	198
Average oil price ($/m³)	196.00	182.77	163.19	108.71	89.72	76.43
Number of employees, end of year	259	247	315	285	180	121

* Prior to 1984, the Corporation reported and based its depletion calculation on proven developed reserves. For 1984, the Corporation adopted the reporting of proven producing reserves. While it is not practical to recalculate reserves for all previous years, the Corporation has determined that the difference between proven producing and proven developed reserves at the end of 1984 and 1983 is not material.

Hank Ftizler Jr.
Chairman
President, Principle Owner, Regina Pats
NHL Players Representative

Paul Schmeichel
Vice-Chairman
Member, Compensation Committee
Minister, Saskatchewan Energy and Mines

Ted Haskins
Corporate Director
President, Crescendo Oil and Gas Company

Robert East
Chairman, Compensation Committee
General Manager, Borg Development Corp.

Eleanore Hicks
Member, Audit Committee
President/Owner, Western Bridge Maker Ltd.
Partner/General Manager, Can Am Land and Management Services Ltd.

William Klempp
Corporate Director
President, Golden Valley Foods Inc.
Farmer

John Lasby
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Farmer

Donald MacPherson
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President/Owner, Mitchell Food Service

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Dennis W. Ward
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Clarkson Gordon
Chartered Accountants
Regina, Saskatchewan

Annual Report

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Corporate Affairs,
Saskoil

Artwork
Kevin Gleghorn

Photography
Douglas Walker

Typesetting
Graphics Gal-Lee

Color Separations
Image Color

Printing Specifications
Press: *Koenig-Bauer high speed sheetfed*
Paper: *Ikonofix matt white cover and text*
Ink: *Four colour process plus two mechanical colours and varnish*

Lithographing
Mowery Graphics Corporation